

**STATE OF WASHINGTON  
OFFICE OF THE INSURANCE  
COMMISSIONER**



**FINANCIAL EXAMINATION**

**of**

**WILLAMETTE DENTAL OF WASHINGTON, INC.  
KIRKLAND, WASHINGTON**

**NAIC CODE 47050  
DECEMBER 31, 2004**

**Order No. G 06-40  
Willamette Dental of Washington, Inc.  
Exhibit A**

**SALUTATION**

Seattle, Washington  
November 20, 2006

The Honorable Mike Kreidler, Commissioner  
Washington State Office of Insurance Commissioner (OIC)  
Insurance Building – Capital Campus  
302–14<sup>th</sup> Avenue SW  
Olympia, WA 98504

Dear Commissioner Kreidler:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.44.145 and RCW 48.03.010, an examination was made of the corporate affairs and financial records of

**Willamette Dental of Washington, Inc.**

of

Kirkland, Washington

hereinafter referred to as "WDWA" or the "Company," at the location of its administrative office at 14025 SW Farmington Road, Beaverton, Oregon. This report is respectfully submitted showing the condition of the Company as of December 31, 2004.

**CHIEF EXAMINER'S AFFIDAVIT**

I hereby certify I have read the attached Report of the Financial Examination of Willamette Dental of Washington, Inc., of Kirkland, Washington. This report shows the financial condition and related corporate matters as of December 31, 2004.



Patrick H. McNaughton  
Chief Examiner

11-20-06

Date

## TABLE OF CONTENTS

<b>SCOPE OF THE EXAMINATION .....</b>	<b>1</b>
<b>INSTRUCTIONS.....</b>	<b>1</b>
<b>COMMENTS AND RECOMMENDATIONS.....</b>	<b>5</b>
<b>COMPANY PROFILE .....</b>	<b>7</b>
Company History.....	7
Territory and Plan of Operation .....	7
Growth Of Company .....	7
<b>AFFILIATED COMPANIES .....</b>	<b>8</b>
<b>INTERCOMPANY AGREEMENTS .....</b>	<b>8</b>
Administrative Services Agreement .....	8
Provider Agreement .....	9
Inter-Company Tax Allocation Agreement .....	9
Service Fee Agreement.....	9
<b>MANAGEMENT AND CONTROL .....</b>	<b>9</b>
Board of Directors.....	9
Officers.....	10
Conflict of Interest.....	10
Fidelity Bond and Other Insurance.....	10
Officers', Employees', and Agents' Welfare and Pension Plans .....	10
<b>CORPORATE RECORDS.....</b>	<b>10</b>
<b>LOSS EXPERIENCE.....</b>	<b>11</b>
<b>REINSURANCE.....</b>	<b>11</b>
<b>ACCOUNTING RECORDS.....</b>	<b>11</b>
<b>INFORMATION SYSTEMS.....</b>	<b>12</b>
<b>SUBSEQUENT EVENTS .....</b>	<b>12</b>
<b>FINANCIAL STATEMENTS .....</b>	<b>12</b>
Assets, Liabilities, Capital and Surplus .....	13
Statement of Revenue and Expenses .....	14
Reconciliation of Surplus Since the Last Examination.....	15
<b>NOTES TO THE FINANCIAL STATEMENTS.....</b>	<b>16</b>
<b>ACKNOWLEDGMENT.....</b>	<b>17</b>
<b>AFFIDAVIT.....</b>	<b>18</b>

## **SCOPE OF THE EXAMINATION**

This examination covers the period January 1, 2000 through December 31, 2004 and comprises a comprehensive review of the books and records of the Company. The examination followed the statutory requirements contained in the Washington Administrative Code (WAC), the Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (FCEH). The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination that were noted during the examination.

Corporate records, external reference materials, and various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following sections of this report. In addition, the Company's certified public accountant's (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

## **INSTRUCTIONS**

The examiners reviewed the Company's filed 2004 NAIC Annual Statement as part of the statutory examination. This review was performed to determine if the Company completed the NAIC Annual Statement in accordance with the NAIC Annual Statement Instructions and to determine if the Company's accounts and records were prepared and maintained in accordance with Title 48 RCW, Title 284 WAC, and the NAIC Statements of Statutory Accounting Principles (SSAP) as contained in the NAIC Accounting Practices and Procedures Manual (AP&P).

The following summarizes the exceptions noted while performing this review.

### **1. Holding Company Violations**

The Company has four significant agreements in place with affiliates that are subject to the Health Carrier Holding Company Act: (1) a Dental Provider Agreement with Willamette Dental Group Washington (WDGW), (2) a Business Services Agreement with Willamette Dental Management Corporation (WDMC) covering management services, (3) a Tax Sharing Agreement, and (4) a services agreement with Willamette Dental Insurance, Inc. (WDI) to provide accounting and other services.

The Company has not filed the Dental Provider Agreement with WDGW, the Business Service Agreement with WDMC or the service agreement with WDI with the Commissioner (Form B), or given prior notification to the Commissioner (Form D), as required by RCW 48.31C.050(2).

In addition, although the Company did file the tax allocation agreement with its 2004 Form B filing pursuant to RCW 48.31C.040(2)(c)(viii), it did not provide prior notification, (Form D), to the Commissioner as required by RCW 48.31C.050(2).

**The Company is instructed to comply with RCW 48.31C.040(2)(c)(v) by including these agreements in Form B; RCW 48.31C.050(1) by disclosing the terms of the agreements**

**in Form D, and RCW 48.31C.050(2)(d) by properly notifying the Commissioner prior to entering into management agreements, service contracts and cost-sharing arrangements.**

## **2. Business Services Agreement**

Section 3.3.1.1 of the Business Services Agreement states:

“Annually and at least sixty (60) days prior to the commencement of each fiscal year of WDWA, WDMC, in consultation with WDWA's Board of Directors, shall prepare and deliver to WDWA for WDWA's approval a proposed budget, setting forth an estimate of WDWA's revenues and expenses for the upcoming fiscal year (including, without limitation, the business service fees associated with the services provided by WDMC hereunder). WDWA shall review the proposed budget and either approve the proposed budget or request any changes within fifteen (15) days after reviewing the proposed budget. The budget shall be adopted by WDWA after reasonable review and comment and may be revised or modified only in consultation with WDMC.”

The Board of Directors' (BOD) minutes do not document that the budget was reviewed, accepted, or adopted by the BOD. The Company is not following its approved contract terms with WDMC contained in Section 3.3.1.1 of the Business Services Agreement. In addition, because the subsequent year's business fee is determined through this budgeting process, the BOD is not documenting its review that service fees paid to affiliates are "fair and reasonable" as required by RCW 48.31C.050, SSAP 25, paragraph 16, and SSAP Appendix A-440.

**The Company is instructed to document its compliance with RCW 48.31C.050(2), SSAP 25, paragraph 16, and SSAP Appendix A-440, by having the Company's Board of Directors follow all contract terms, by reviewing all agreements yearly, and documenting its review and approval in the BOD minutes or alternatively change the contracts to require management to document its review and approval.**

## **3. Premium Billing and Collection**

While no material differences between amounts due and amounts paid were discovered in our review, it was clear that there were weaknesses in the controls and lack of written procedures relating to the premium billing and collections system. This resulted in the following exceptions noted in our review of a sample selected from the December 2004 billings and new accounts for January of 2005:

- The summary of the electronic filings were not always accurate and were not always being verified.
- There are no written procedures for premium processors.
- The company is passing on differences with no clear guidelines as to amount.
- There were two instances where rates charged exceeded contract rates.

**The Company is instructed to comply with RCW 48.44.050 and WAC 284-07-050 by keeping accurate records and maintaining adequate controls and by creating written procedures for premium billing and collection and ensuring that the procedures are being followed. In addition, the Company is instructed to comply with RCW 48.44.040 which states, "No registrant shall change any rates, modify any contract, or offer any new contract, until he has filed a copy of the changed rate schedule, modified contract, or new contract with the insurance commissioner" and WAC 284.43.920(a) which states a carrier is required to file every contract form and any modification thereof, and every rate schedule and any changes thereof before being offered to the public.**

#### **4. Netting of Intercompany Receivables**

The Company recorded receivables due from one affiliated company totaling \$230,399 and netted it against payables due to three affiliates in the amount of \$69,667. The net amount of, \$160,733, was paid to WDWA on February 14, 2005 by a check from WDGW. SSAP No. 64, paragraph 2, states:

"A valid right of setoff exists only when all the following conditions are met:

- a. Each of the two parties owes the other determinable amounts. An amount shall be considered determinable for purposes of this provision when it is reliably estimable by both parties to the agreement;
- b. The reporting party has the right to setoff the amount owed with the amount owed by the other party;
- c. The reporting party intends to setoff; and
- d. The right of setoff is enforceable at law."

The qualifying criteria outlined above have not been met.

**The Company is instructed to follow the NAIC Annual Statement Instructions and the NAIC Accounting Practices and Procedures Manual as required by the Commissioner under WAC 284-07-050 by settling intercompany receivables and payables separately with each company in the group as required by SSAP No. 64, paragraph 2.**

#### **5. Outside Claims (Losses)**

Claim payments for outside services (out of network) are very small and are mainly the result of emergency treatment provided to members when they are out of the area. All payments for outside services are made by Willamette Dental Group Washington (WDGW) even though the provider contract stipulates that WDWA is responsible for these payments, with any payments being reimbursed by WDGW. The actual accounting and processing is not consistent with the terms of the contract.

WDGW processes claims for all three insurance companies in the group in addition to claims for third parties. All claims are processed in one data base. There is not a tracking system that readily identifies outside service payments on behalf of the Company, as Company codes are not tracked in the outside services data base. In addition, there are no reserves identified

for incurred but not paid claims. A review of the data base supports the Company's position that the unpaid claims liability is not material.

Under the terms of the provider agreement, the Company would be reimbursed if it recorded the expense payments on its books. Any recognition of paid or unpaid claims would be offset by a receivable from WDGW. As a result, there would be no impact on income or surplus.

**The Company is instructed to comply with RCW 48.44.050 and WAC 284-07-050 by keeping accurate records, to update its accounting procedures so that historical reports of paid claims can be compiled from its database and to comply with the terms of the contract by recognizing the paid and unpaid claims and reimbursements on its accounting records and statements.**

## **6. NAIC Annual Statement Errors and Misclassifications**

The results of the examination disclosed several instances in which the Company's filing of the 2004 NAIC Annual Statement did not conform to the NAIC Accounting Practices and Procedures Manual and the NAIC Annual Statement Instructions. While the Company needs to correct these practices, none of the following items in the instruction were material to the financial statements and no examination adjustments were made.

**The Company is instructed to comply with RCW 48.43.097, RCW 48.44.095, and WAC 284-07-050(2) in filing its NAIC Annual Statements in accordance with the NAIC Accounting Practices and Procedures Manual, and the NAIC Annual Statement Instructions. The following exceptions were noted in our examination:**

- On the Jurat Page, for licensed as business type, the Company checked the "HMO" box and should be checking the "Dental Service Corporation" box. The Company responded that it will check this box in the future.
- The Company omitted Note 10G in the Notes to Financial Statements which requires certain disclosures when the reporting entity and one or more other enterprises are under common ownership.
- The response in The General Interrogatories, Part 2, questions 11.4 and 11.6 are incorrect. Minimum Net Worth required by RCW 48.44.035 is \$300,000, not the reported amount of \$1,892,808. The Company responded that it will correct this in the future.
- The Company participates in a tax sharing agreement with Willamette Dental of Idaho and Willamette Dental Insurance, Inc. The tax agreement is not disclosed in Note 9.F of the Notes to Financial Statements as required by the NAIC Annual Statement Instructions.
- Payroll taxes were improperly included on the salary line on page 14 in 2000 and 2004 instead of the payroll tax line.
- The Underwriting and Investment Exhibit, page 14, does not have any amounts in column 4, Investment Expenses. Bank charges and employee expenses relating to investing (such as investment manager fees and investment personnel salaries) should be included in column 4.



- The 2001 NAIC Annual Statement was missing the following schedules:  
Schedule D - Part 2  
Schedule D - Part 3  
Schedule D - Part 4
- The Company did not properly report trade dates for security acquisitions and disposals on Schedule D, Part 3 and 4, respectively, and thus was not in compliance with SSAP No. 30, paragraph 5, for common stocks.
- Schedule D, Part 3 was missing number of shares in column 6.
- During 2004, the Company had \$545,000 of transactions with WDMC. However, the Company only disclosed \$252,000 in Schedule Y.
- There were transactions totaling \$276,000 to WDI comprised of \$216,000 payroll costs, \$32,400 of payroll benefits, and \$27,600 of payroll taxes. The Company only reported \$216,000 on Schedule Y.
- As a result of the netting of intercompany balances described in Instruction No. 4, the Company did not properly complete Exhibit 5 and Exhibit 6, as follows:

NAIC Annual Statement Instructions, page 96, for Exhibit 5 (Amounts due from Parent, Subsidiaries, and Affiliates) requires listing individually, the greater of, any amounts including premiums due from Parent, Subsidiaries, and Affiliates with balances greater than \$10,000, or those that are 10% of gross receivables. Exhibit 5 should have reflected the intercompany receivable of \$230,399 instead of the \$160,733.

NAIC Annual Statement Instructions, page 96, for Exhibit 6 (Amounts due to Parent, Subsidiaries, and Affiliates) require listing individually, the greater of, any amounts including premiums due from Parent, Subsidiaries, and Affiliates with balances greater than \$10,000 or those that are 10% of total amounts due parent, subsidiaries, and affiliates. Exhibit 6 did not recognize any balance due to affiliates but should have reflected the payable of \$69,667.

## **COMMENTS AND RECOMMENDATIONS**

### **1. Fidelity Insurance**

The Company had \$150,000 of fidelity insurance. Using procedures outlined in the NAIC Financial Condition Examiners Handbook, the calculated suggested minimum range is between \$200,000 and \$225,000.

**It is recommended that the Company bring its fidelity insurance coverage to within a range of \$200,000 and \$225,000.**

### **2. Master Yearly Contract**

The Company's contracts with affiliates are yearly contracts. Every year, a new contract is signed. Because there are new agreements every year, it is difficult to track the changes from year-to-year. In addition, new contracts must be filed and approved every year. Creating a master contract and amending it as changes are made would facilitate tracking changes to

contracts and eliminate the requirement for filing for annual approval for contracts that didn't change during the year.

**It is recommended that the Company create a master contract and amend the master contract as changes are made. Amending a contract makes the changes obvious and easier to track. This methodology should also reduce administrative costs by eliminating the requirement that the contracts be submitted for approval every year when there is no change in the contract.**

### **3. Business Contingency Plan**

The Company does not have a formal, written business contingency plan that addresses the continuation of all significant business activities.

**It is recommended that the Company implement a business contingency plan to address the continuation of all significant business activities, including financial functions, telecommunication services and data processing services, in the event of a disruption of normal business activities, as recommended by NAIC guidelines**

### **4. Disaster Recovery Plan**

The Company does not have a formal, written disaster recovery plan for the resumption of IS operations in the event of a disruption of normal operations.

**It is recommended that the Company prepare formal written procedures for a disaster recovery plan that includes relocation of data processing operations to a specific alternative site and appropriate escalation procedures to resolve operational failures in a timely manner and that the procedures be tested regularly to ensure that data processing operations can be restored in a timely manner, as recommended by NAIC Guidelines.**

### **5. Conflict of Interest Disclosures**

The Company has adequate reporting procedures in place to reveal potential conflicts of interest to the BOD or the president of the Company. However, the BOD meeting minutes do not contain any acknowledgment that the conflict of interest statements have been completed and reviewed, or that any potential conflicts have been reported to the BOD.

**It is recommended that the BOD minutes include an acknowledgement that the conflict of interest statements have been completed by all appropriate persons and potential conflicts of interest have been disclosed.**

## **COMPANY PROFILE**

### **History**

Willamette Dental of Washington, Inc., (formerly known as Columbia Dental of Washington, Inc.) is a Washington corporation organized on November 7, 1995 and registered by the OIC as a Limited Health Care Service Contractor (LHCSC) on May 6, 1996. WDWA markets and administers dental plans to employers and groups in the state of Washington.

### **Territory and Plan of Operation**

The Company provides dental coverage to Washington policyholders. The Company writes capitated dental plans with dental services provided under a capitation contract with an affiliate WDGW. WDGW operates a staff model plan, all the participating dentists are employees on its payroll. WDGW receives a capitation payment, which is a percentage of premiums, and in turn accepts all the risk of losses including emergency and out of area service claims. As a result, the Company is not exposed to significant loss fluctuations and the Company's losses as a percentage of premiums written can be predicted with an acceptable degree of precision.

Capitation fees of approximately 90% of premiums were paid to WDGW during the period examined. Operating costs, including service fees paid to WDMC, were approximately 7% of premiums. WDWA retains the remaining approximately 3% of premiums.

### **Growth of Company**

The following schedule reflects the growth of the Company for the five year period ending December 31:

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
<b>Assets, Liabilities, Capital and Surplus:</b>					
Admitted Assets	\$2,802,124	\$2,183,308	\$1,547,460	\$1,409,453	\$1,495,136
Liabilities	175,498	179,839	41,418	47,001	232,429
Capital and Surplus	2,626,626	2,003,469	1,506,042	1,362,452	1,262,707
<b>Revenue and Expenses:</b>					
Premiums Earned	18,948,363	16,347,860	13,854,528	10,938,493	8,523,905
Net Underwriting Deductions	18,233,973	15,800,486	13,619,012	10,662,292	8,002,965
Underwriting Gain or Loss	714,390	547,374	235,516	276,201	520,940
Investment and Other Income	67,468	-65,579	51,244	24,918	67,188
Pre-Tax Income	781,858	481,795	286,760	301,119	588,128
Taxes Incurred	164,568	163,810	108,282	101,544	190,325
<b>Net Income</b>	<u><u>\$617,290</u></u>	<u><u>\$317,985</u></u>	<u><u>\$178,478</u></u>	<u><u>\$199,575</u></u>	<u><u>\$397,803</u></u>

## **AFFILIATED COMPANIES**

The Company is 100% owned by Willamette Dental of Idaho, Inc. (WDID), which is under common control with the corporations listed below. The ultimate controlling person of the insurance holding companies is Eugene C. Skourtes, who owns 100% of the following (except where indicated otherwise):

**Willamette Dental of Idaho, Inc. (WDID)**, – a licensed health insurer in the state of Idaho. This corporation owns 100% of the following insurance subsidiaries:

**Willamette Dental of Washington, Inc.**, a Washington Corporation

**Willamette Dental Insurance, Inc.**, an Oregon Corporation

Eugene C. Skourtes, Inc., P.S., d.b.a. **Willamette Dental Group Washington**, a Washington Corporation that is the dental professional provider for the state of Washington.

**Willamette Dental Management Corporation**, an Oregon Corporation that provides management and administrative services to all the companies within the insurance holding company system. Dr. Skourtes owns 75% of this corporation.

**Willamette Dental Group, P.C. (WDG)**, is an Oregon Corporation that is the dental professional provider for the states of Idaho and Oregon.

## **INTERCOMPANY AGREEMENTS**

### **Administrative Services Agreement**

The Company entered into an administrative agreement with WDMC, which provides the following services to the Company:

Management of insurance administration	Monthly financial statements
Secretarial support	Monthly accounting services
Marketing support	Information systems support
Account service and statistical support	Utilization and management review
Billing and collection services	Payment of direct expenses
Statutory financial statement preparation	Tax returns
Special projects	

Under the terms of this agreement, the Company pays WDMC a business service fee of \$15,000 monthly, in addition to reimbursement of any direct expenses paid by WDMC on behalf of the Company.

### **Provider Agreement**

The Company has a provider arrangement with WDGW whereby the Company remits a capitated fee to WDGW for covered dental services. The capitation fee is approximately 90% of collected premiums. Under the terms of the contract, the outside emergency services were subject to payment by WDWA with these payments being reimbursed by WDGW. (See Instruction No. 5).

### **Intercompany Tax Allocation Agreement**

The Intercompany Tax Allocation Agreement executed July 1, 2003 stipulates that the three insurance companies in the group; the Company, WDID and WDI, be included in a consolidated federal income tax return. Under the terms of the agreement, taxes are calculated and settled using a separate return basis calculation. All current and deferred income tax amounts were accounted for and reported in the appropriate annual statement lines.

### **Service Fee Agreement**

The Company reported in the Notes to Financial Statements that it paid Willamette Dental Insurance, Inc. \$216,000 for accounting and other service fees. RCW 48.31C.050(2) requires the Company to notify the Commissioner of its intent to enter into this transaction, and also requires the Company to file the agreement. The Company has not filed its intent to enter into the agreement nor has it filed the agreement with the Commissioner. (See Instruction No. 1).

## **MANAGEMENT AND CONTROL**

### **Board of Directors (BOD)**

The Bylaws vest the management and control of the Company in a Board of Directors, consisting of three members. There were no board committees. A majority of directors constitutes a quorum. Members of the BOD, duly appointed and serving as of December 31, 2004, were as follows:

<b>Name</b>	<b>Title</b>
Eugene Constantine Skourtes, DMD*	Chairman, President and Secretary Owner – Willamette Dental Group
Stephen John Petruzelli	Chief Executive Officer Willamette Dental Management Corp.
Wee Yuen Chin	Treasurer
April May Kniess**	Director

\*Chairman of the Board

\*\*Resigned from Board in 2005

## **Officers**

The principal officers of the Company, as of December 31, 2004, were as follows:

<b>Name</b>	<b>Title</b>
Eugene C. Skourtes	President and Secretary
Stephen J. Petruzelli	Senior Vice President
George Robinson	Vice President – Insurance Operations
Wee Yuen Chin	Treasurer

## **Conflict of Interest**

The Company has adequate reporting procedures in place to reveal potential conflicts of interest to the chairperson of the BOD or the president of the Company. However, the BOD minutes did not contain any acknowledgement that the conflict of interest statements were completed and reviewed or that potential conflicts were reported to the BOD. (See Comments and Recommendations No. 5).

## **Fidelity Bond and Other Insurance**

On December 31, 2004, the Company was insured up to \$150,000 per occurrence against losses from dishonest acts and fraud committed by its employees. The NAIC suggested minimum level of fidelity bond coverage for the size and volume of its operation is \$200,000. (See Comments and Recommendations No. 1).

Other insurance coverages in force at December 31, 2004, were as follows:

Commercial general liability	Employee benefit liability
Automobile liability	Employment contingent liability
Workers' compensation	Professional liability
Umbrella	

The Company is a named insured for the coverages listed above with these insurance coverages provided through its affiliate's insurance policies.

## **Officers', Employees', and Agents' Welfare and Pension Plans**

WDWA does not have any direct employees. Officers and employees are employed either by WDMC or WDI. All salaries, pension plans, and bonuses are paid by WDMC or WDI.

## **CORPORATE RECORDS**

In general, the review of minutes of the Board of Directors indicated that the minutes support the transactions of the Company and the actions taken by its officers. The minutes of meetings were adequately approved and supported Company transactions and events. All BOD meetings were conducted with a quorum present.

The Articles of Incorporation and Bylaws were amended in 2002 to change the Company's name, and the Board members ratified the change.

### **LOSS EXPERIENCE**

The following exhibit reflects Company's loss experience from 2000 through 2004.

Year	(1) Total Revenues	(2) Total Medical Expenses	(2/1) Ratio
2000	\$ 8,523,905	\$ 7,649,560	89.7%
2001	10,938,493	9,782,240	89.4%
2002	13,854,528	12,428,893	89.7%
2003	16,347,860	14,647,868	89.6%
2004	18,948,363	17,023,063	89.8%

The Company has a provider arrangement with WDGW whereby the Company remits a capitated fee to WDGW for covered dental services. The capitation fee is approximately 90% of collected premiums. The medical expenses above only reflect capitation fees. Under the terms of the contract, the outside emergency services were subject to payment by WDWA with these payments being reimbursed by WDGW. (See Instruction No. 5).

### **REINSURANCE**

The Company does not participate in reinsurance arrangements. The reinsurance function is satisfied since the entire risk for claims is transferred to WDGW through the provider arrangement described above.

### **ACCOUNTING RECORDS**

The Company maintains its accounting records on a Generally Accepted Accounting Principles (GAAP) accrual basis of accounting and adjusts to Statutory Accounting Principles (SAP) basis for NAIC Annual Statement reporting. The Company was audited annually by the certified public accounting firm of PricewaterhouseCoopers through 2002 and by Perkins & Company, P.C. for 2003 and 2004. The Company received an unqualified opinion for all years under review. The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination and no exceptions or significant weaknesses were noted.

## **INFORMATION SYSTEMS (IS)**

As part of the examination of WDWA, a review and assessment of the critical IS controls and operations were evaluated to gain assurance that appropriate controls are in place. Operations and application controls were reviewed to determine the type of hardware installed; operating systems and proprietary software in use; back up and recovery facilities employed; and the controls exercised to maintain data security. The Company had sufficient internal controls in place to monitor system activity and processes.

WDWA does not have a formal, written Disaster Recover Plan for the restoration of the network systems in the event of a disruption of normal operations. Also, WDWA does not have a formal, written Business Contingency Plan that addresses the continuation of all significant business activities, including financial functions, telecommunication services and data processing services, in the event of a disruption of normal business activities as recommended by NAIC Guidelines. (See Comments and Recommendations Nos. 3 and 4).

## **SUBSEQUENT EVENTS**

There were no significant subsequent events affecting the financial status of the Company.

## **FINANCIAL STATEMENTS**

The following examination financial statements show the financial condition of Willamette Dental of Washington, Inc. as of December 31, 2004.

Statement of Assets and Liabilities

Statement of Operations

Reconciliation of Surplus for the Period Since the Last Examination



**WILLAMETTE DENTAL OF WASHINGTON, INC.**  
**ASSETS, LIABILITIES, CAPITAL AND SURPLUS**  
**DECEMBER 31, 2004**

	<u>BALANCE</u> <u>PER COMPANY</u>	<u>EXAMINATION</u> <u>REF. ADJUSTMENTS</u>	<u>BALANCE PER</u> <u>EXAMINATION</u>
<b>Assets</b>			
Common stocks	\$751,255	\$0	\$751,255
Cash and short-term investments	<u>1,575,076</u>		<u>1,575,076</u>
<b>Subtotal, cash and invested assets</b>	<b><u>2,326,331</u></b>	<b><u>0</u></b>	<b><u>2,326,331</u></b>
Investment income due and accrued	904		904
Premiums and considerations:			
Uncollected premiums and agent's balances in the course of collection	306,719		306,719
Current federal and foreign income tax recoverable and interest thereon	7,437		7,437
Receivables from parent, subsidiaries, and affiliates	<u>160,733</u>		<u>160,733</u>
<b>Total assets</b>	<b><u>\$2,802,124</u></b>	<b><u>\$0</u></b>	<b><u>\$2,802,124</u></b>
<b>Liabilities, Capital and Surplus</b>			
Premiums received in advance	\$140,484	\$0	\$140,484
General expenses due or accrued	28,506		28,506
Net deferred tax liability	6,508		6,508
Aggregate write-ins for liabilities			
<b>Total Liabilities</b>	<b><u>175,498</u></b>	<b><u>0</u></b>	<b><u>175,498</u></b>
			-
Common capital stock	50,000		50,000
Gross paid in and contributed surplus	625,000		625,000
Unassigned funds (surplus)	<u>1,951,626</u>		<u>1,951,626</u>
<b>Total capital and surplus</b>	<b><u>2,626,626</u></b>	<b><u>0</u></b>	<b><u>2,626,626</u></b>
<b>Total liabilities, capital and surplus</b>	<b><u>\$2,802,124</u></b>	<b><u>\$0</u></b>	<b><u>\$2,802,124</u></b>

**WILLAMETTE DENTAL OF WASHINGTON, INC.**  
**STATEMENT OF REVENUE AND EXPENSES**  
**DECEMBER 31, 2004**

	<u>BALANCE PER COMPANY</u>	<u>REF.</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
Member months	<u>743,514</u>			<u>743,514</u>
Net premium income	\$18,928,084		\$0	\$18,928,084
Aggregate write-ins for other health care related revenue	<u>20,279</u>			<u>20,279</u>
<b>Total revenues</b>	<u>18,948,363</u>		<u>0</u>	<u>18,948,363</u>
<b>Hospital and Medical:</b>				-
Other professional services	<u>17,023,063</u>			<u>17,023,063</u>
<b>Subtotal:</b>	<u>17,023,063</u>		<u>0</u>	<u>17,023,063</u>
<b>Less:</b>				
Net reinsurance recoveries	<u>0</u>		<u>0</u>	<u>0</u>
Total medical and hospital	<u>17,023,063</u>		<u>0</u>	<u>17,023,063</u>
General administrative expenses	<u>1,210,910</u>			<u>1,210,910</u>
Total Underwriting deductions	<u>18,233,973</u>		<u>0</u>	<u>18,233,973</u>
Net underwriting gain or loss	<u>714,390</u>		<u>0</u>	<u>714,390</u>
Net investment income earned	<u>30,423</u>			<u>30,423</u>
Net realized capital gains or (losses)	<u>37,045</u>			<u>37,045</u>
Net investment gains or (losses)	<u>67,468</u>		<u>0</u>	<u>67,468</u>
Net income or (loss) before federal income taxes	<u>781,858</u>		<u>0</u>	<u>781,858</u>
Federal and foreign income taxes incurred	<u>164,568</u>			<u>164,568</u>
<b>Net income (loss)</b>	<u><u>\$617,290</u></u>		<u><u>\$0</u></u>	<u><u>\$617,290</u></u>

**WILLAMETTE DENTAL OF WASHINGTON, INC.**  
**RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION**  
**FOR THE YEARS ENDED DECEMBER 31**

	2004	2003	2002	2001	2000
Surplus as regards policyholders, December 31, previous year	<u>\$ 2,003,469</u>	<u>\$ 1,506,042</u>	<u>\$ 1,362,452</u>	<u>\$ 1,262,707</u>	<u>\$ 902,316</u>
Net income	617,290	317,985	178,478	199,575	397,803
Net unrealized capital gains (losses)	3,007	216,711	(88,360)	(75,844)	(37,412)
Change in net deferred income tax	983	(93,882)	86,391		
Change in nonadmitted assets	(770)	56,613	(32,919)	(23,986)	
Aggregate write-ins for gains and losses in surplus	2,647				
Change in surplus as regards policyholders for the year	<u>623,157</u>	<u>497,427</u>	<u>143,590</u>	<u>99,745</u>	<u>360,391</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$ 2,626,626</u></u>	<u><u>\$ 2,003,469</u></u>	<u><u>\$ 1,506,042</u></u>	<u><u>\$ 1,362,452</u></u>	<u><u>\$ 1,262,707</u></u>

## **NOTES TO THE FINANCIAL STATEMENTS**

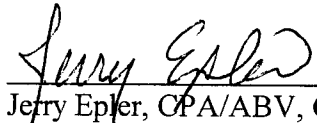
The Company has no special consents, permitted practices or orders from the state of Washington and there were no examination adjustments.

### ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers of Willamette Dental of Washington, Inc., during the course of this examination.

In addition to the undersigned, Michael Jordan, CPA, CFE, MHP; Alexis Santos, ASA, MAAA; John Jacobson, AES, AFE; Tim Navaja, CFE, CIE; Adrienne DeBella, CPA; and Ann Kauffman, CPA, all from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report.

Respectfully submitted,

  
Jerry Epler, CPA/ABV, CFE  
Examiner-in-Charge  
State of Washington

**AFFIDAVIT**

**STATE OF WASHINGTON**

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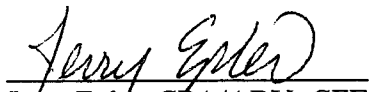
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**COUNTY OF KING**


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Jerry Epler, CPA/ABV, CFE, being duly sworn, deposes and says that the foregoing report subscribed is true to the best of his knowledge and belief.

He attests that the examination of Willamette Dental of Washington, Inc., was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).

  
Jerry Epler, CPA/ABV, CFE  
Examiner-in-Charge  
State of Washington

Subscribed and sworn to before me this 20th day of November, 2006.

  
Notary Public in and for the  
State of Washington

